

# **Norwalk Health Services Corporation and Subsidiaries**

**Consolidated Financial Statements  
September 30, 2013 and 2012**

# Norwalk Health Services Corporation and Subsidiaries

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September 30, 2013 and 2012

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## Independent Auditor's Report

To the Board of Trustees of  
Norwalk Health Services Corporation

We have audited the accompanying consolidated financial statements of Norwalk Health Services Corporation and its subsidiaries (the "System"), which comprise the consolidated balance sheets as of September 30, 2013 and September 30, 2012, and the related consolidated statements of operations, of changes in net assets and of cash flows for the years then ended.

### ***Management's Responsibility for the Consolidated Financial Statements***

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the System's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Norwalk Health Services Corporation and its subsidiaries at September 30, 2013 and September 30, 2012, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating information is the responsibility of management and was derived

from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole. The consolidating information is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations and cash flows of the individual companies and is not a required part of the consolidated financial statements. Accordingly, we do not express an opinion on the financial position, results of operations and cash flows of the individual organizations.

PriceWaterhouseCoopers LLP

Hartford, CT  
January 27, 2014

# Norwalk Health Services Corporation and Subsidiaries

## Consolidated Balance Sheets

### September 30, 2013 and 2012

	2013	2012
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 82,407,195	\$ 85,492,679
Investments	33,656,759	45,487,085
Patient accounts receivable, less allowance for doubtful account of \$22,241,656 in 2013 and \$25,494,296 in 2012	28,873,592	32,330,519
Inventories	2,717,050	2,568,063
Due from third party agencies	-	2,368,715
Other current assets	8,455,222	6,882,248
Assets whose use is limited	-	278,083
Total current assets	<u>156,109,818</u>	<u>175,407,392</u>
Long-term investments	158,419,428	104,476,656
Assets whose use is limited		
Assets held by trustee under bond indenture agreements	59,708,986	2,366,125
Assets held by trustee for self-insurance	327	2,450,281
Total assets whose use is limited	<u>59,709,313</u>	<u>4,816,406</u>
Beneficial interest in trust	7,582,480	7,072,644
Other assets	28,383,249	32,449,001
Due from third party agencies	2,596,876	3,698,889
Interest rate swap	4,554,026	-
Goodwill	13,843,749	13,843,749
Investment in joint venture	2,267,986	2,267,986
Property, plant and equipment		
Land and land improvements	8,307,533	3,712,255
Buildings	178,235,457	175,961,660
Equipment	254,383,542	245,004,588
Construction in progress	34,252,962	8,602,012
Accumulated depreciation	(312,199,270)	(293,885,243)
Total property, plant and equipment	<u>162,980,224</u>	<u>139,395,272</u>
Total assets	<u>\$ 596,447,149</u>	<u>\$ 483,427,995</u>
<b>Liabilities and Net Assets</b>		
Current liabilities		
Accounts payable	\$ 31,050,734	\$ 27,132,332
Accrued compensation	26,011,309	20,982,422
Due to third party agencies	5,008,734	5,022,080
Accrued interest	818,694	757,682
Current portion of long-term debt	5,190,534	5,674,419
Current portion of capital lease	-	7,180
Other current liabilities	283,041	291,774
Total current liabilities	<u>68,363,046</u>	<u>59,867,889</u>
Accrued pension liability	13,061,730	64,741,651
Asset retirement obligation	10,653,327	10,866,380
Other liabilities	58,786,065	58,778,063
Due to third party agencies	28,187,936	28,938,889
Long-term debt, less current portion	125,030,298	56,096,399
Total liabilities	<u>304,082,402</u>	<u>279,289,271</u>
Net assets		
Unrestricted	238,151,305	146,635,196
Unrestricted attributable to noncontrolling interest	1,388,280	954,530
Temporarily restricted	43,370,310	47,103,146
Permanently restricted	9,454,852	9,445,852
Total net assets	<u>292,364,747</u>	<u>204,138,724</u>
Total liabilities and net assets	<u>\$ 596,447,149</u>	<u>\$ 483,427,995</u>

The accompanying notes are an integral part of these consolidated financial statements.

**Norwalk Health Services Corporation and Subsidiaries**  
**Consolidated Statements of Operations**  
**Years Ended September 30, 2013 and 2012**

	2013	2012
<b>Operating revenues</b>		
Net revenues from services to patients	\$ 364,800,437	\$ 365,898,768
Other operating revenues	15,543,696	18,207,098
Net assets released from restrictions used for operations	3,450,936	5,341,417
Total operating revenues	<u>383,795,069</u>	<u>389,447,283</u>
<b>Operating expenses</b>		
Salaries and benefits	221,677,115	210,210,293
Supplies and other expenses	126,263,836	136,090,165
Depreciation and amortization	19,123,385	20,774,884
Interest	2,695,815	2,273,303
Total operating expenses	<u>369,760,151</u>	<u>369,348,645</u>
Income from operations	<u>14,034,918</u>	<u>20,098,638</u>
<b>Nonoperating income (expense)</b>		
Investment income	2,307,725	1,275,016
Net unrealized gains on investments	10,016,229	6,210,984
Loss on sale of equipment	-	(483,772)
Write off financing fees	(246,698)	-
Provision for joint venture investment	-	(461,817)
Total nonoperating income	<u>12,077,256</u>	<u>6,540,411</u>
Excess of revenues over expenses, before noncontrolling interest in joint venture	26,112,174	26,639,049
Change in value attributable to noncontrolling interest in joint venture	<u>(1,345,837)</u>	<u>(283,937)</u>
Excess of revenues over expenses	24,766,337	26,355,112
<b>Other changes in net assets</b>		
Net assets released from restrictions used for capital	10,627,037	737,532
Pension related changes other than net periodic benefit cost	51,307,939	(6,727,223)
Change in value of interest rate swap	4,554,026	-
Net unrestricted other changes in joint venture	(651,317)	-
Non controlling interest in joint venture	<u>1,345,837</u>	<u>283,937</u>
Increase in unrestricted net assets	<u>\$ 91,949,859</u>	<u>\$ 20,649,358</u>

The accompanying notes are an integral part of these consolidated financial statements.

**Norwalk Health Services Corporation and Subsidiaries**  
**Consolidated Statements of Changes in Net Assets**  
**Years Ended September 30, 2013 and 2012**

	2013	2012
<b>Unrestricted net assets</b>		
Excess of revenues over expenses	\$ 24,766,337	\$ 26,355,112
Net assets released from restrictions used for capital	10,627,037	737,532
Pension related changes other than net periodic benefit cost	51,307,939	(6,727,223)
Change in value of interest rate swap	4,554,026	-
Net unrestricted other changes in joint venture	(651,317)	-
Non controlling interest in joint venture	1,345,837	283,937
Increase in unrestricted net assets	<u>91,949,859</u>	<u>20,649,358</u>
<b>Temporarily restricted net assets</b>		
Contributions	6,238,140	15,190,641
Increase in assets held in trust by others	509,836	732,886
Net realized and unrealized gains on investments and investment income	3,597,161	3,718,481
Net assets released from restrictions	<u>(14,077,973)</u>	<u>(6,078,949)</u>
(Decrease) Increase in temporarily restricted net assets	<u>(3,732,836)</u>	<u>13,563,059</u>
<b>Permanently restricted net assets</b>		
Contributions	<u>9,000</u>	<u>6,610</u>
Increase in permanently restricted net assets	<u>9,000</u>	<u>6,610</u>
Increase in net assets	88,226,023	34,219,027
<b>Net assets</b>		
Beginning of year	<u>204,138,724</u>	<u>169,919,697</u>
End of year	<u>\$ 292,364,747</u>	<u>\$ 204,138,724</u>

The accompanying notes are an integral part of these consolidated financial statements.

# Norwalk Health Services Corporation and Subsidiaries

## Consolidated Statements of Cash Flows

### Years Ended September 30, 2013 and 2012

	2013	2012
<b>Operating activities</b>		
Change in net assets	\$ 88,226,023	\$ 34,219,027
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Noncash items		
Depreciation and amortization	19,123,385	20,774,884
(Gain) loss on sale of property, plant and equipment	(15,375)	475,292
Provision for bad debts	18,754,828	23,581,954
Provision for joint venture investment	-	461,817
Net realized and unrealized (gain) or loss on investments	(12,660,354)	(9,282,176)
Pension related changes other than periodic benefit cost	(51,307,939)	6,727,223
Net asset item		
Restricted contributions	(9,968,544)	(9,895,179)
Changes in assets and liabilities		
Accounts receivable	(15,297,901)	(17,310,931)
Inventories	(148,987)	(271,231)
Other current assets	(1,572,974)	(1,649,448)
Other assets	3,200,243	(17,898,205)
Accounts payable	(208,842)	3,701,611
Accrued compensation	5,028,887	884,911
Due to third-party agencies, net	2,706,429	11,242,505
Accrued interest	61,012	(147,489)
Other current liabilities	(8,733)	(681,243)
Accrued pension liability	(371,982)	(2,005,386)
Asset retirement obligation	(213,053)	(642,710)
Other liabilities	8,002	12,795,384
Net cash provided by operating activities	<u>45,334,125</u>	<u>55,080,610</u>
<b>Investing activities</b>		
Net additions to property, plant and equipment	(37,842,346)	(34,461,340)
Sales of investments	19,041,608	18,300,000
Purchases of investments	(48,493,700)	(45,268,661)
Increase in beneficial interest in trust	(509,836)	(732,886)
Proceeds from sale of property, plant and equipment	71,135	508,480
(Increase) decrease in assets whose use is limited	(54,614,824)	16,821,861
Net cash used by investing activities	<u>(122,347,963)</u>	<u>(44,832,546)</u>
<b>Financing activities</b>		
Payments on notes receivable	71,002	403,892
Payments on capital lease	(7,180)	(9,649)
Proceeds from long term debt	82,000,000	-
Payments on long-term debt	(13,549,986)	(12,639,598)
Change in value of interest rate swap	(4,554,026)	-
Restricted contributions	9,968,544	9,895,179
Net cash provided by (used by) financing activities	<u>73,928,354</u>	<u>(2,350,176)</u>
(Decrease) increase in cash and cash equivalents	(3,085,484)	7,897,888
<b>Cash and cash equivalents</b>		
Beginning of year	85,492,679	77,594,791
End of year	<u>\$ 82,407,195</u>	<u>\$ 85,492,679</u>
<b>Supplemental disclosure of cash information</b>		
Interest paid	\$ 4,287,848	\$ 2,637,137
<b>Noncash transactions</b>		
Fixed assets expenditures included in accounts payable	\$ 4,552,535	\$ 499,327
Capitalized interest	1,818,937	559,895

The accompanying notes are an integral part of these consolidated financial statements.



# **Norwalk Health Services Corporation and Subsidiaries**

## **Notes to Consolidated Financial Statements**

### **September 30, 2013 and 2012**

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#### **1. Organization and Significant Accounting Policies**

Norwalk Health Services Corporation (the "Corporation") was incorporated as a not-for-profit organization under the nonstock corporation laws of Connecticut in February 1985.

The Corporation is the sole member of its subsidiaries which include The Norwalk Hospital Association and its majority interest in Norwalk Surgery Center, LLC ("Hospital"); Norwalk Hospital Physicians & Surgeons, Inc. ("NHP&S"); Norwalk Health Care, Inc. ("NHC"); and Norwalk Hospital Foundation, Inc. ("Foundation"). The Corporation also owns 100% of the stock of S.W.C. Corporation ("S.W.C"), a Connecticut stock corporation, and Maple Street Indemnity company, Ltd. ("MSI"). MSI is a captive insurance company incorporated under the laws of the Bermuda Monetary Authority. NHP&S was previously known as Fairfield County Medical Services, Inc. and was a wholly owned subsidiary of the Hospital but as a result of a corporate reorganization, its name was changed and it became a wholly owned subsidiary of the Corporation

#### **Principles of Consolidation**

The consolidated financial statements include the accounts of the Corporation and its wholly owned subsidiaries. All significant intercompany accounts and transactions are eliminated in consolidation.

#### **Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying footnotes. Actual results could differ from those estimates. The Corporation and its subsidiaries' significant estimates reflected in the consolidated financial statements include contractual and bad debt allowances for patient service revenue and the related patient accounts receivable, valuation of the intangible asset from acquisition, estimated settlements due to or from third parties, reserves for malpractice, workers' compensation and other self-insured liabilities, and benefit plans assumptions.

#### **Income Taxes**

The Corporation and its subsidiaries, with the exception of SWC and MSI, are not-for-profit organizations as described in Section 501(c) (3) of the Internal Revenue Code and are exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. Tax provisions and related liabilities for SWC are not material to the consolidated financial statements. MSI is a foreign corporation exempt from United States taxation.

#### **Regulatory Matters**

The Hospital is required to file annual operating information with the State of Connecticut Office of Health Care Access ("OHCA").

#### **Cash Equivalents**

The Corporation and its subsidiaries consider all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. The carrying value of cash equivalents approximates its fair value.

#### **Concentration of Credit Risk**

Cash and cash equivalents are maintained with domestic institutions. Management monitors the financial strength of these institutions.

# Norwalk Health Services Corporation and Subsidiaries

## Notes to Consolidated Financial Statements

### September 30, 2013 and 2012

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#### **Investments**

Investments in equity securities with readily determinable fair values and all investments in debt securities are recorded at fair value, based upon quoted market prices. Investment income or loss (including realized gains and losses on investments, interest and dividends) is included in the excess of revenues over expenses unless the income or loss is restricted by donor or law.

#### **Fair Value Measurements**

The Corporation and its subsidiaries records investments in the financial statements at fair value. Fair value is a market-based measurement based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering assumptions, a three-tier fair value hierarchy has been established which prioritizes the inputs used to measure fair value. The three levels of the fair value hierarchy under this principle are as follows:

- Level 1      Inputs to the valuation methodology are unadjusted quoted prices for identical assets and liabilities in active markets that the Corporation and its subsidiaries have the ability to access at the measurement date.
- Level 2      Inputs to the valuation methodology include:
- Quoted prices for similar assets and liabilities in active markets;
  - Quoted prices for identical or similar assets and liabilities in inactive markets;
  - Inputs other than quoted prices that are observable for the asset or liability;
  - Inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- If the asset and liability has a specified term, the Level 2 input must be observable for substantially the full term of the asset and liability.
- Level 3      Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The fair value of the Corporation and its subsidiaries' investments are based on quoted market values.

The fair value of the Corporation's beneficial interest in trust is based on valuation techniques that use significant inputs that are unobservable as they trade infrequently or not at all.

#### **Fair Value Option**

The Corporation and its subsidiaries elected to measure its investments at fair value. Accordingly, unrealized gains and losses on investments are included in excess of revenues over expenses.

# **Norwalk Health Services Corporation and Subsidiaries**

## **Notes to Consolidated Financial Statements**

### **September 30, 2013 and 2012**

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#### **Assets Whose Use is Limited**

Assets whose use is limited primarily include assets held by trustee under indenture agreements and investments held by trustee for self-insurance.

#### **Beneficial Interest in Trust**

The Corporation and its subsidiaries have been named sole or participating beneficiary in one remainder trust. Under the terms of this trust, the Corporation and its subsidiaries have the irrevocable right to receive the remaining principal and income earned on the trust assets. The estimated present value of the future payments to the Corporation and its subsidiaries is recorded at the fair value of the Corporation and its subsidiaries' proportionate interest in the assets held in trust. In 2013 and 2012, no distributions were received from this trust.

#### **Inventories**

Inventories are stated at the lower of cost, determined on the first-in, first-out (FIFO) method, or market.

#### **Investments in Joint Venture**

The Hospital and its subsidiaries have invested in a joint venture which is accounted for under the equity method of accounting.

#### **Property, Plant and Equipment**

Property, plant and equipment are recorded at cost or, if received as a donation, at the fair value on the date received. The Corporation and its subsidiaries provide for depreciation of property, plant and equipment using the straight-line method in amounts sufficient to amortize the cost of the assets over their useful lives. Useful lives assigned to assets are as follows: Land Improvements – 2–25 years; Buildings – 15–40 years; and Equipment – 3–20 years.

#### **Temporarily and Permanently Restricted Net Assets**

Temporarily restricted net assets are those whose use has been limited by donors to a specific time frame or purpose. Permanently restricted net assets have been restricted by donors to be maintained in perpetuity.

#### **Donor Restricted Gifts**

Unconditional promises to give cash and other assets to the Corporation and its subsidiaries are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the conditions are met. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. Pledges receivable at September 30, 2013 were discounted using rates ranging from .1% to 1.39%. Pledges receivable at September 30, 2012 were discounted using rates ranging from .13% to 4%. Amortization of the discount is included in contribution revenue. At September 30, 2013 and 2012, pledges receivable, which are included in other current assets or other assets, were approximately \$7,691,000 and \$11,637,000, respectively.

When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of operations as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying financial statements.

# **Norwalk Health Services Corporation and Subsidiaries**

## **Notes to Consolidated Financial Statements**

### **September 30, 2013 and 2012**

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#### **Medical Malpractice Self-Insurance**

As of October 1, 2005, the Corporation and its subsidiaries are insured for general liability and professional liability claims by MSI. The Corporation and its subsidiaries, excluding Norwalk Health Care, has obtained professional liability coverage through MSI of \$35,000,000 per claim and \$48,000,000 in the aggregate. Norwalk Health Care has obtained professional liability coverage through MSI of \$32,000,000 per claim and \$34,000,000 in the aggregate. MSI purchases \$30,000,000 of excess reinsurance coverage above a self-insured retention of \$5,000,000 per claim and \$18,000,000 in the aggregate.

#### **Fair Value of Financial Instruments**

The carrying value of cash and cash equivalents, short term investments, accounts receivable, other receivables, assets limited as to use, assets held in trust by others, investments, accounts payable and accrued liabilities at the balance sheet dates approximate their fair values. The fair value of debt, based on current market rates for similar debt, was approximately \$137,568,000 and \$70,561,000, in 2013 and 2012, respectively. The carrying value of debt is \$130,221,000 and \$61,771,000 in 2013 and 2012, respectively.

#### **Statement of Operations**

The consolidated statement of operations includes the excess of revenues over expenses. Changes in unrestricted net assets which are excluded from excess of revenues over expenses, consistent with industry practice, includes pension-related changes other than net periodic benefit cost, net assets released from restrictions used for capital, net unrestricted other changes in joint venture, and noncontrolling interest in joint venture.

#### **Nonoperating Income**

Activities, other than in connection with providing health care services, are considered to be nonoperating. Nonoperating income (expense) primarily consists of investment income, unrealized and realized gains and losses on investments, loss on sale of equipment, write off of financing fees and a provision for joint venture investment.

#### **Asset Retirement Obligation**

The Corporation and its subsidiaries record a liability for legal obligations associated with the retirement of tangible long-lived assets when the timing and/or method of settlement of the obligation is conditional on a future event. The fair value of a liability for a conditional asset retirement obligation is recognized in the period in which it occurred if a reasonable estimate of fair value can be made.

#### **Implementation of Accounting Standards**

Effective October 1, 2012, the Corporation adopted the provisions of ASU 2011-07, "Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and Allowance for Doubtful Accounts for Certain Health Care Entities," which requires health care entities to change the presentation on their statement of operation by reclassifying the provision for bad debts associated with patient service revenue from an operating expense to a deduction from patient service revenue (net of contractual allowances discounts). Additionally, the update requires enhanced disclosure about health care entities policies for recognizing revenue and assessing bad debts.

The amendment also requires disclosures of patient service revenue (net of contractual allowances and discounts) as well as qualitative and quantitative information about changes in the allowance for doubtful accounts. In connection with the Corporation's adoption of ASU 2011-07, the Corporation reclassified \$18,754,828 and \$23,581,954 of bad debts for 2013 and 2012 from an operating expense to a deduction from patient service revenue

# Norwalk Health Services Corporation and Subsidiaries

## Notes to Consolidated Financial Statements

### September 30, 2013 and 2012

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Effective October 1, 2011, the Corporation adopted the provisions of ASU 2010–24, “Presentation of Insurance Claims and Related Insurance Recoveries”, which clarifies that health care entities should not net insurance recoveries against the related claims liabilities. In connection with the Corporation’s adoption of ASU 2010–24, the Corporation recorded an increase in its assets and liabilities of approximately \$15,000,000 in the accompanying Consolidated Balance Sheet as of September 30, 2013.

## 2. Revenues From Services to Patients

The following table summarizes revenues from services to patients:

	2013	2012
Gross revenues from services to patients	\$ 979,538,787	\$ 961,852,662
Deductions and exclusions		
Allowances	595,983,522	572,371,940
Provision for bad debts	18,754,828	23,581,954
Net revenues from services to patients	<u>\$ 364,800,437</u>	<u>\$ 365,898,768</u>

Revenues and patient accounts receivable are recorded when patient services are performed. Amounts received from certain payors are different from established billing rates of the various providers, and these differences are accounted for as allowances.

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered. Revenue under third-party payor agreements is subject to audit and retroactive adjustments. Provisions for estimated third-party payor settlements and adjustments are estimated in the period the related services are rendered and adjusted in future periods as additional information becomes known or final settlements are determined.

Inpatient acute care services rendered to Medicare program recipients are paid at prospectively determined rates per discharge varying according to the intensity of services required. Inpatient acute care services are paid based on Diagnosis-Related Groups (“DRG”), inpatient rehabilitation services are paid based on Case Mix Groups (“CMG”), and inpatient psychiatry services are paid on a prospective per diem rate. Outpatient services are reimbursed by Medicare on an Ambulatory Payment Classification (“APC”) basis and fee screens. Hospital claims for reimbursement are subject to review and audit. The Hospital’s Medicare costs reports have been final settled with the Medicare fiscal intermediary through 2010.

Inpatient Medicaid reimbursement through the Connecticut Department of Social Services (“DSS”) is reimbursed on a per diem basis with settlement cost reports based on discharges filed in the subsequent fiscal year. Outpatient activity through DSS is reimbursed based on fee schedules in effect at the time the service is provided. Managed Medicaid services are reimbursed according to per diems and fee schedules in place at the time the service is provided.

The Hospital has agreements with various Health Maintenance Organizations (HMOs) to provide medical services to subscribing participants. Under these agreements, the Hospital receives fee-for-service payments for covered services based upon discounted fee schedules.

**Norwalk Health Services Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**September 30, 2013 and 2012**

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The Corporation and its subsidiaries grant credit without collateral to their patients, most of whom are local residents and are insured under third-party payor agreements. The mix of net revenue from patients and third-party payors at September 30, 2013 and 2012 are as follows:

	<b>2013</b>	<b>2012</b>
Commercial/other	59 %	60 %
Medicare	28	28
Self pay	1	2
Medicaid	12	10
	<u>100 %</u>	<u>100 %</u>

The mix of net receivables from patient and third-party payors at September 30, 2013 and 2012 are as follows:

	<b>2013</b>	<b>2012</b>
Commercial/other	61 %	63 %
Medicare	28	27
Self pay	2	2
Medicaid	9	8
	<u>100 %</u>	<u>100 %</u>

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and are subject to interpretation. While management believes that the members of the System are in compliance with all such applicable laws and regulations, as referenced in Note 16 compliance with such laws and regulations is subject to government review and interpretation and can result in significant regulatory action including fines, penalties and exclusion from the Medicare and Medicaid programs. As a result, there is at least a reasonable possibility that recorded estimates can change by material amounts. In addition, changes in the Medicare and Medicaid programs and the reduction of funding levels could have an adverse impact on the System.

The Hospital and NHC accept all patients regardless of their ability to pay. A patient is classified as a charity patient by reference to established policies. These policies define charity services as those services for which no payment is anticipated. In assessing a patient's ability to pay, the Hospital and NHC utilize the generally recognized poverty income levels for the state published in the Federal Register, but also include certain cases where incurred charges are significant when compared to income. For the years ended September 30, 2013 and 2012, the Hospital provided charity care of approximately \$18,272,000 and \$17,929,000, respectively, in charges.

**Norwalk Health Services Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**September 30, 2013 and 2012**

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**3. Investments**

Investments are stated at fair value. The composition of investments as of September 30 is as follows:

	2013	2012
<b>Investments</b>		
Cash and cash equivalents	\$ 34,194,006	\$ 53,071,387
Mutual funds	<u>157,882,181</u>	<u>96,892,354</u>
	<u>192,076,187</u>	<u>149,963,741</u>
<b>Assets whose use is limited</b>		
Cash and cash equivalents	59,709,313	4,816,897
U.S. Treasury obligations	<u>-</u>	<u>277,592</u>
	<u>\$ 59,709,313</u>	<u>\$ 5,094,489</u>

As described in Note 1, investments are recorded at fair value. The Corporation and its subsidiaries endeavor to utilize the best available information in measuring fair value. The following table presents the financial instruments carried at fair value:

	2013			
	Level 1	Level 2	Level 3	Total Fair Value
<b>General investments</b>				
Cash and cash equivalents	\$ 34,194,006	\$ -	\$ -	\$ 34,194,006
Mutual funds	<u>157,882,181</u>	<u>-</u>	<u>-</u>	<u>157,882,181</u>
	<u>192,076,187</u>	<u>-</u>	<u>-</u>	<u>192,076,187</u>
<b>Assets whose use is limited</b>				
Cash and cash equivalents	59,709,313	-	-	59,709,313
U.S. Treasury obligations	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>59,709,313</u>	<u>-</u>	<u>-</u>	<u>59,709,313</u>
<b>Beneficial interest in trust</b>	<u>-</u>	<u>-</u>	<u>7,582,480</u>	<u>7,582,480</u>
	<u>\$ 251,785,500</u>	<u>\$ -</u>	<u>\$ 7,582,480</u>	<u>\$ 259,367,980</u>

**Norwalk Health Services Corporation and Subsidiaries**  
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	<b>2012</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total Fair Value</b>
<b>General investments</b>				
Cash and cash equivalents	\$ 53,071,386	\$ -	\$ -	\$ 53,071,386
Mutual funds	96,892,354	-	-	96,892,354
	<u>149,963,740</u>	<u>-</u>	<u>-</u>	<u>149,963,740</u>
<b>Assets whose use is limited</b>				
Cash and cash equivalents	4,816,897	-	-	4,816,897
U.S. Treasury obligations	277,592	-	-	277,592
	<u>5,094,489</u>	<u>-</u>	<u>-</u>	<u>5,094,489</u>
<b>Beneficial interest in trust</b>	-	-	7,072,644	7,072,644
	<u>\$ 155,058,229</u>	<u>\$ -</u>	<u>\$ 7,072,644</u>	<u>\$ 162,130,873</u>

There were no transfers of assets between levels for the year ended September 30, 2013.

The table below presents the change in fair value measurements for the Corporation and its subsidiaries' Level 3 investments during the year ended September 30, 2013:

<b>Beginning balance</b>	\$ 7,072,644
Realized and unrealized gain	<u>509,836</u>
<b>Ending balance</b>	<u>\$ 7,582,480</u>

Investment income includes the following for the years ended September 30, 2013 and 2012:

	<b>2013</b>	<b>2012</b>
Interest and dividend income	\$ 4,131,954	\$ 3,035,916
Net realized gains on sales of securities	<u>(881)</u>	<u>227,393</u>
	<u>\$ 4,131,073</u>	<u>\$ 3,263,309</u>
Investment income included in other operating and nonoperating revenues	\$ 3,178,037	\$ 2,386,125
Investment income included in the change in temporarily restricted net assets	<u>953,036</u>	<u>877,184</u>
	<u>\$ 4,131,073</u>	<u>\$ 3,263,309</u>



# Norwalk Health Services Corporation and Subsidiaries

## Notes to Consolidated Financial Statements

### September 30, 2013 and 2012

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#### 4. Leases

The Corporation and its subsidiaries lease property and equipment under noncancelable operating leases that expire in various years through 2028. Certain leases may be renewed at the end of their term.

Future minimum payments under noncancelable operating leases, and future receipts under noncancelable subleases where the Corporation and its subsidiaries are receiving rental receipts, with initial terms of one year or more consisted of the following at September 30, 2013:

Year	Operating Lease Payments	Sublease Rental Receipts
2014	\$ 7,248,000	\$ 2,821,000
2015	7,258,000	2,888,000
2016	7,342,000	2,948,000
2017	7,148,000	3,022,000
2018	7,045,000	3,040,000
Thereafter	55,404,000	5,692,000
	<u>\$ 91,445,000</u>	<u>\$ 20,411,000</u>

Rental expense was approximately \$8,778,000 and \$9,153,000 for the years ended September 30, 2013 and 2012, respectively. Rent expense was offset by rental revenue of approximately \$2,918,000 and \$2,909,000, respectively.

#### 5. Goodwill and Intangibles

In 2011, the Hospital recorded goodwill of \$13,843,749 related to the acquisition of Norwalk Radiology and Mamography Center ("NRM"). There is no impairment as of September 30, 2013 and 2012.

The Hospital is amortizing the noncompete intangible over the 10 year length of the noncompete agreement on a straight-line basis. Accumulated amortization as of September 30, 2013 amounted to \$1,986,266.

#### 6. Beneficial Interest in Trust

The Corporation is the beneficiary of assets held in trust by others. The total trust assets, as reported by the trustee, had an aggregate fair value, based on quoted market prices, at September 30, 2013 and 2012 of \$7,582,480 and \$7,072,644, respectively. The timing and amounts of the principal distributions are based upon various factors established in a will. During 2013 and 2012, the Corporation did not receive any distributions.

**Norwalk Health Services Corporation and Subsidiaries**  
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**7. Long-Term Debt**

The following table summarizes the long-term debt outstanding as of September 30, 2013:

	<b>Norwalk Health Services Corporation</b>	<b>Norwalk Surgery Center, LLC</b>	<b>Total</b>
2014	\$ 4,508,589	\$ 681,945	\$ 5,190,534
2015	6,316,051	716,426	7,032,477
2016	6,769,094	752,421	7,521,515
2017	6,666,222	790,694	7,456,916
2018	6,180,000	409,390	6,589,390
Thereafter	96,430,000	-	96,430,000
	<u>126,869,956</u>	<u>3,350,876</u>	<u>130,220,832</u>
Less: Current portion of long-term debt	<u>4,508,589</u>	<u>681,945</u>	<u>5,190,534</u>
Long-term debt	<u>\$ 122,361,367</u>	<u>\$ 2,668,931</u>	<u>\$ 125,030,298</u>

During 2013 and 2012, the Hospital paid interest of \$4,287,848 and \$2,637,137, respectively, on its long-term debt obligations. Interest capitalized for the years ended September 30, 2013 and 2012 was approximately \$1,819,000 and \$560,000, respectively.

On December 7, 2012, the Hospital financed a portion of the construction of an outpatient pavilion and other equipment through the issuance of the State of Connecticut Health and Educational Facilities Authority ("CHEFA") Revenue Bonds, Series J, in the original principal amount of \$82,000,000. Interest only payments are required for the first two years of the Series J Bonds. Thereafter, monthly payments of principal and interest are required in accordance with the repayment schedule. The Series J Bonds are subject to mandatory tender on December 1, 2024. The Series J Bonds bear interest at a rate per annum equal to 70% of the sum of the one-month LIBOR Rate plus 300 basis points. The interest rate on the Series J Bonds is reset monthly. The repayment of the Series J Bonds is secured by the Gross Receipts pledged by the Hospital and the Foundation (collectively, the "Obligated Group") under the Amended and Restated Master Trust Indenture dated as of December 1, 2012 (the "Master Indenture"). Norwalk Health Care, Inc. withdrew as a member of the Obligated Group on December 7, 2012.

On December 7, 2012, the Obligated Group entered into an interest rate swap agreement and confirmation with respect to the Series J Bonds. The swap confirmation has a notional amount of \$82,000,000. Under the terms of the confirmation, the Hospital pays a fixed rate of 1.2343% to a counterparty and the counterparty pays a variable rate of 70% of one-month LIBOR to the Obligated Group. The payments under the swap confirmation are based on the outstanding notional amount; the notional amount will amortize at the same rate as the Series J Bonds. The payments under the swap confirmation effectively produce a synthetic fixed rate of 3.3343% on the Series J Bonds through December 1, 2024. The Obligated Group entered into the interest rate swap to reduce interest rate volatility on the Series J Bonds.

In December 2012, available Hospital and other funds were deposited in an escrow account established for the redemption of CHEFA Revenue Bonds, Series E, issued in April of 1999. The outstanding Series E Bonds, \$8,560,000 were then redeemed on January 7, 2013 (the "Redemption Date") at a price of 100% of the principal amount plus accrued interest to the Redemption Date.

# **Norwalk Health Services Corporation and Subsidiaries**

## **Notes to Consolidated Financial Statements**

### **September 30, 2013 and 2012**

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In 2011, the Hospital financed the construction of the parking garage and other equipment through a private placement of CHEFA Revenue Bonds, Series G, H and I, in the aggregate principal amount of \$46,840,000. The repayment of the Series G, H and I Bonds is also secured by the Obligated Group's pledge of Gross Receipts under the Master Indenture.

The Series G Bonds totaling \$25,000,000 mature serially through 2025 with interest at an annual rate of 5.12%. Interest on the bonds is payable semi-annually each June and December 1. As of September 30, 2013, the Series G outstanding debt is \$22,650,000.

The Series H Bonds totaling \$10,040,000 mature serially through 2020 with interest at an annual rate of 3.49%. Interest on the bonds is payable semi-annually each June and December 1. As of September 30, 2013, the Series H outstanding debt is \$8,300,000.

The Series I Bonds totaling \$11,800,000 mature serially through 2020 with interest at an annual rate of 3.4%. Interest on the bonds is payable semi-annually each June and December 1. As of September 30, 2013, the Series I outstanding debt is \$9,750,000.

The outstanding principal amount of outstanding CHEFA bond debt at September 30, 2013 and 2012 is \$122,700,000 and \$52,395,000, respectively.

In 2011, Norwalk Surgery Center, LLC obtained a \$4,000,000 seven year term loan from The Bank of Fairfield. The loan bears interest at a fixed rate of 4.875%. Monthly payments of interest only are required for the first 18 months of the loan. Thereafter, monthly payments of principal and interest are required based upon a five and one-half year amortization schedule. The loan is secured by a first lien on all business assets of Norwalk Surgery Center, LLC. As of September 30, 2013, the term loan outstanding debt is \$3,350,876.

In 2007, the Hospital financed certain equipment related to an energy project through CHEFA, which issued \$9,066,025 in debt under a Master Financing Agreement (the "Agreement"), dated as of April 1, 2007 with Bank of America Public Capital Corp. as the lender (the "Lender"). The loan is payable in 120 equal installments of \$93,432 beginning June 3, 2007, with interest of 4.38%. The Hospital has granted a collateral interest to the Lender in the equipment financed. As of September 30, 2013, the CHEFA outstanding debt is \$3,767,601.

In connection with this borrowing, the Hospital applied to the Department of Public Utility Control ("DPUC") for a capital grant for customer-side distributed resources. Pursuant to the application, DPUC has approved a rate reduction subsidy with regard to certain of the equipment financed under this Agreement. Effective July 3, 2010, the rate reduction subsidy of \$1,302 per month is remitted by the Connecticut Light and Power Company directly to the Lender.

In 2007, the Hospital entered into an agreement with the Connecticut Hospital Association Trust (the "Trust") to borrow up to \$2,000,000 from the energy conservation and loan management loan fund. The loan, which is interest free, will enable the Hospital to convert electrical energy and to manage its electrical energy needs. The loan is payable in 84 equal monthly installments of \$22,462, beginning April 1, 2008. As of September 30, 2013 and 2012, the Trust outstanding debt was \$402,356 and \$671,926, respectively.

# Norwalk Health Services Corporation and Subsidiaries

## Notes to Consolidated Financial Statements

### September 30, 2013 and 2012

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#### 8. Benefit Plans

The Hospital has a defined benefit pension plan covering all eligible employees. The benefits are based on years of service and the employee's average compensation (as defined in the Plan document). The Hospital's funding policy is to contribute, at a minimum, for each plan year, an amount necessary to satisfy the Employee Retirement Income Security Act ("ERISA") minimum funding requirements.

Effective September 30, 2013, the Plan was frozen for all purposes (except as provided below) for those Participants who are not covered by the collective bargaining agreement between the Hospital and the Connecticut Health Care Associates, National Union of Hospital and Health Care Employees, AFSCME, AFL-CIO Nurses' Union ("Non-Union Participants"). This means that no Non-Union Participants shall accrue benefits under the plan after September 30, 2013 and no compensation or service after that date shall be taken into account in determining such participants' accrued benefits under the plan, provided, however, that interest credits shall continue to be credited as required by applicable law. Plan Participants who are members of the Connecticut Health Care Associates, National Union of Hospital and Health Care Employees, AFSCME, AFL-CIO Nurses' Union, and who were employed by the Hospital on or before December 31, 2006 (when the Plan was frozen for all new hires), shall continue to accrue benefits under the Plan.

Effective December 31, 2006, the plan was amended to provide that no employees hired on or after January 1, 2007, would be eligible to participate in the Plan. Employees hired before that date, who satisfied the Plan's eligibility requirements, participated and earned benefits under the plan until it was frozen as described above.

Amounts included as a reduction of unrestricted net assets that are not yet recognized as a component of net periodic benefit cost are as follows:

	2013	2012
Net actuarial loss	\$ 51,115,314	\$ 101,904,421
Prior service cost	-	518,832
	<u>\$ 51,115,314</u>	<u>\$ 102,423,253</u>

The amount of prior service cost and actuarial loss expected to be recognized in net periodic benefit cost in 2013 is \$6,375,980.

**Norwalk Health Services Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
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The following is a summary of the changes in the projected benefit obligation and plan assets:

	<b>2013</b>	<b>2012</b>
Accumulated benefit obligation	<u>\$ 192,676,388</u>	<u>\$ 210,119,166</u>
<b>Change in projected benefit obligation</b>		
Benefit obligation, beginning of period	\$ 229,432,752	\$ 199,263,628
Service cost	7,630,858	6,630,998
Interest cost	8,808,951	9,167,766
Actuarial (gain) loss	(28,825,271)	22,832,432
Curtailments	(10,401,838)	-
Benefits paid	<u>(8,569,105)</u>	<u>(8,462,072)</u>
Benefit obligation, end of period	<u>198,076,347</u>	<u>229,432,752</u>
<b>Change in plan assets</b>		
Fair value of plan assets, beginning of period	164,691,101	139,243,814
Actual return on plan assets	18,892,624	23,909,359
Contributions	9,999,997	10,000,000
Benefits paid	<u>(8,569,105)</u>	<u>(8,462,072)</u>
Fair value of plan assets, end of period	<u>185,014,617</u>	<u>164,691,101</u>
Funded status and accrued pension liability	<u>\$ (13,061,730)</u>	<u>\$ (64,741,651)</u>

Components of net periodic benefit cost for the years ended September 30:

	<b>2013</b>	<b>2012</b>
Service cost	\$ 7,630,858	\$ 6,630,998
Interest cost	8,808,954	9,167,766
Expected return on plan assets	(13,187,774)	(12,626,442)
Net amortization and deferral	<u>6,375,980</u>	<u>4,822,292</u>
Net periodic benefit cost	<u>\$ 9,628,018</u>	<u>\$ 7,994,614</u>

**Assumptions**

The weighted-average assumptions used to determine the year-end benefit obligation at September 30 are as follows:

	<b>2013</b>	<b>2012</b>
Discount rate	4.90 %	3.90 %
Rate of compensation increase	3.50 %	3.50 %

# Norwalk Health Services Corporation and Subsidiaries

## Notes to Consolidated Financial Statements

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The weighted-average assumptions used to determine net periodic benefit cost for year ended September 30 are as follows:

	2013	2012
Discount rate	3.90 %	4.68 %
Expected return on assets	8.00 %	8.00 %
Rate of compensation increase	3.50 %	3.50 %

The Hospital's expected long-term rate of return on assets assumption is derived from a review of anticipated future long-term performance of individual asset classes and consideration of the appropriate asset allocation strategy given the anticipated requirements of the plan to determine the average rate of earnings expected on the funds invested to provide for the pension plan benefits. While the review gives appropriate consideration to recent fund performance and historical returns, the assumption is primarily a long-term, prospective rate.

#### Plan Assets

The Hospital's pension plan asset allocations at September 30 are as follows:

	Percentage of Plan Assets	
	2013	2012
<b>Asset category</b>		
Equity securities	64 %	60 %
Debt securities	36 %	40 %
	<u>100 %</u>	<u>100 %</u>

The Hospital maintains target allocation percentages among various asset classes based on an investment policy established for the pension plan which is designed to achieve, long-term objectives of return, while mitigating against downside risk and considering expected cash flows. The current weighted-average target asset allocation is equity securities 64%, and debt securities 36%. The investment policy is reviewed from time to time to ensure consistency with the long-term objective of funding the plan to a level sufficient to pay plan benefits as they become due.

The defined benefit plan assets categorization is based upon the lowest level of input that is significant to the fair value measurements within the valuation hierarchy. The following table summarizes the Hospital's fair values of investments by major type held by the defined benefit plan at September 30:

	2013			
	Level 1	Level 2	Level 3	Fair Value
Cash and cash equivalents	\$ 2,728,276	\$ -	\$ -	\$ 2,728,276
Mutual funds	182,045,103	-	-	182,045,103
Unallocated immediate participation group annuity contract	-	167,322	-	167,322
	<u>\$ 184,773,379</u>	<u>\$ 167,322</u>	<u>\$ -</u>	<u>\$ 184,940,701</u>

# Norwalk Health Services Corporation and Subsidiaries

## Notes to Consolidated Financial Statements

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#### Contributions

The Hospital expects to contribute approximately \$6,500,000 to the plan in fiscal 2014.

#### Estimated Future Benefit Payments

The following future benefit payments are expected to be paid:

<b>Fiscal Year</b>	<b>Benefit Payments</b>
2014	\$ 7,627,000
2015	7,917,000
2016	8,272,000
2017	8,685,000
2018	9,198,000
2019 - 2023	56,948,000
	<u>\$ 98,647,000</u>

The Corporation and Hospital also sponsor defined contribution savings plans covering substantially all of their respective employees. Effective January 1, 2007, the plans were split into two parts. Part I is for eligible employees who have a date of employment on or before December 31, 2006. Part II is for eligible employees who have a date of employment on January 1, 2007 or thereafter. Elective deferrals and after tax contributions are made pursuant to a salary reduction agreement for Part I and Part II employees.

For Part I employees, the Corporation and Hospital provide a partial matching contribution on the first 3% of an employee's elective deferred and/or after tax contributions.

For Part II employees, the Corporation and Hospital provide a partial matching contribution on the first 3% of an employee's elective deferral and/or after tax contributions. Part II employees will also receive a required employer contribution equal to 3% of such employee's compensation.

Expense related to the Hospital's defined contribution plan was approximately \$3,456,000 and \$3,189,000 for the years ended September 30, 2013 and 2012, respectively. Expense related to the Corporation's defined contribution plan was approximately \$94,000 and \$92,000 for the years ended September 30, 2013 and 2012, respectively.

#### 9. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at September 30:

	<b>2013</b>	<b>2012</b>
Healthcare services	\$ 43,370,310	\$ 47,103,146

# Norwalk Health Services Corporation and Subsidiaries

## Notes to Consolidated Financial Statements

### September 30, 2013 and 2012

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Permanently restricted net assets at September 30, 2013 and 2012 are restricted to:

	2013	2012
Healthcare services	\$ 9,454,852	\$ 9,445,852

#### 10. Endowments

The Corporation's endowment funds consist of donor restricted funds to be invested in perpetuity to provide a permanent source of income. The net assets associated with endowment funds are classified and reported based on the existence or absence of donor imposed restrictions.

The Corporation and its subsidiaries classify net assets of donor-restricted endowment funds for organizations subject to an enacted Uniform Prudent Management of Institutional Funds Act ("UPMIFA"). Connecticut enacted its UPMIFA statute effective October 1, 2007. This standard requires not-for-profit organizations subject to an enacted version of UPMIFA to classify the portion of the endowment fund that is not classified as permanently restricted net assets as temporarily restricted net assets (time restricted) until appropriated for expenditure by the organization. The portion to be classified as temporarily restricted consists of accumulated unspent income and appreciation.

The Corporation has interpreted the Connecticut UPMIFA statute as requiring the preservation of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Corporation classifies as permanently restricted net assets, (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Corporation considers the following factors in making a determination to appropriate or accumulate endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the Corporation and the donor restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Corporation
- (7) The investment policies of Corporation.

Prior to enactment of UPMIFA, the Corporation followed the provisions of the Uniform Management of Institutional Funds Act.



**Norwalk Health Services Corporation and Subsidiaries**  
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Endowment net asset composition by type of fund as of September 30:

	<b>2013</b>			
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Donor restricted endowment funds	\$ -	\$ 3,194,223	\$ 9,454,852	\$ 12,649,075

	<b>2012</b>			
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Donor restricted endowment funds	\$ -	\$ 2,391,116	\$ 9,445,852	\$ 11,836,968

Changes in endowment net assets for the years ended September 30:

	<b>2013</b>			
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
<b>Endowment net assets, beginning of year</b>	\$ -	\$ 2,391,116	\$ 9,445,852	\$ 11,836,968
Investment return				
Investment income	\$ -	305,064	-	305,064
Net realized and unrealized loss	\$ -	669,466	-	669,466
Total investment return	-	974,530	-	974,530
Contributions	-	-	9,000	9,000
Appropriation of investment return for expenditure	-	(171,423)	-	(171,423)
<b>Endowment net assets, end of year</b>	<u>\$ -</u>	<u>\$ 3,194,223</u>	<u>\$ 9,454,852</u>	<u>\$ 12,649,075</u>

  

	<b>2012</b>			
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
<b>Endowment net assets, beginning of year</b>	\$ -	\$ 2,457,426	\$ 9,439,242	\$ 11,896,668
Investment return				
Investment income	-	330,961	-	330,961
Net realized and unrealized loss	-	667,981	-	667,981
Total investment return	-	998,942	-	998,942
Contributions	-	-	6,610	6,610
Appropriation of investment return for expenditure	-	(1,065,252)	-	(1,065,252)
<b>Endowment net assets, end of year</b>	<u>\$ -</u>	<u>\$ 2,391,116</u>	<u>\$ 9,445,852</u>	<u>\$ 11,836,968</u>

The primary long-term management objective for the Corporation's endowment funds is to maintain the permanent nature of each endowment fund, while providing a predictable, stable, and constant stream of earnings. Consistent with that objective, the primary investment goal is to earn annual interest and dividends.

# Norwalk Health Services Corporation and Subsidiaries

## Notes to Consolidated Financial Statements

### September 30, 2013 and 2012

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#### 11. Transfer of Assets to Norwalk Surgery Center, LLC

On May 31, 2012, The Hospital transferred assets associated with its offsite ambulatory surgery business to Norwalk Surgery Center, LLC. The Hospital owned 64.11% and 70.00% of Norwalk Surgery Center, LLC at September 30, 2013 and 2012, respectively. The Hospital recorded a gain on the sale of the assets to Norwalk Surgery Center, LLC of \$3,838,416 which is eliminated in consolidation.

#### 12. Transfer of Interest in Norwalk Hospital Physicians and Surgeons

On October 1, 2011, The Hospital transferred its interest in Fairfield County Medical Services, Inc. to Norwalk Health Services Corporation. The Hospital recorded an adjustment of \$832,000 to reverse the deficit previously recorded in net assets. Subsequent to the transfer of interest, Fairfield County Medical Services, Inc. changed its name to Norwalk Hospital Physicians & Surgeons, Inc.

#### 13. Noncontrolling Interest

The Corporation and its subsidiaries prospectively adopted ASU 2010-7 *Not-for-Profit Entities Mergers and Acquisitions*. This guidance impacts the financial statement treatment of noncontrolling interests in consolidated entities. This guidance requires the Corporation to report noncontrolling interests in consolidated entities as a separate component of net assets on the Balance Sheet and the change in net assets attributable to the noncontrolling interests separately within the *Statements of Changes in Net Assets*.

The Corporation has consolidated certain noncontrolling interests relating to, its investment in Norwalk Surgery Center, LLC under ASU 2010-7. These noncontrolling interests represent the portion of the Norwalk Surgery Center, LLC not controlled by the Corporation, but are required to be presented on the Corporation's balance sheet under generally accepted accounting principles. These interests were approximately \$1,388,000 as of September 30, 2013.

Changes in Consolidated Unrestricted Net Assets Attributable to the Corporation are as follows:

	Corporation	Noncontrolling Interest	Total
<b>Balances at September 30, 2011</b>	<u>\$ 126,269,775</u>	<u>\$ 670,593</u>	<u>\$ 126,940,368</u>
Excess of revenues over expenses	26,355,112	283,937	26,639,049
Other changes	(5,989,691)	-	(5,989,691)
Changes in unrestricted net assets	<u>20,365,421</u>	<u>283,937</u>	<u>20,649,358</u>
<b>Balances at September 30, 2012</b>	<u>146,635,196</u>	<u>954,530</u>	<u>147,589,726</u>
Excess of revenues over expenses	24,766,337	1,345,837	26,112,174
Other changes	66,749,772	(912,087)	65,837,685
Changes in unrestricted net assets	<u>91,516,109</u>	<u>433,750</u>	<u>91,949,859</u>
<b>Balances at September 30, 2013</b>	<u>\$ 238,151,305</u>	<u>\$ 1,388,280</u>	<u>\$ 239,539,585</u>

# Norwalk Health Services Corporation and Subsidiaries

## Notes to Consolidated Financial Statements

### September 30, 2013 and 2012

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#### 14. Commitments and Contingencies

Various lawsuits and claims arising in the normal course of operations are pending or are in progress against the Hospital and NHC [members of the System]. While the outcomes of the lawsuits and claims cannot be determined at this time, management believes that any loss that may arise from these lawsuits and claims will not have a material adverse effect on the financial position or on the net assets of the System.

The Hospital has received requests for information from governmental authorities relating to, among other things, patient billings. These requests relate to compliance with certain laws and regulations. Management is cooperating with these governmental authorities in their information requests and ongoing investigations. While management does not believe that any of these inquiries or investigations will result in a material future loss, the ultimate results of these inquiries and investigations, including the impact on the System, cannot be determined at this time.

The Hospital has outstanding commitments on contracts to construct the outpatient pavilion in the amount of \$71 million at September 30, 2013. Funding for this project is expected to come from working capital, capital campaign proceeds and CHEFA Series J bond proceeds.

The Hospital has recorded as purchase consideration an additional \$1,914,723 which represents SWC investment in the Joint Venture at the time of sale and an accrual of \$1,000,000 as an estimate of the potential earn out based on volume.

#### 15. Functional Expenses

The Corporation and its subsidiaries provide general health care services to residents within its geographic location. Expenses related to providing these services are as follows:

	2013	2012
Health care services	\$ 234,349,945	\$ 271,585,470
General and administrative	<u>135,410,206</u>	<u>120,526,952</u>
	<u>\$ 369,760,151</u>	<u>\$ 392,112,422</u>

#### 16. Subsequent Events

The Corporation and its subsidiaries have performed an evaluation of subsequent events through January 27, 2014, the date the financial statements were issued, and noted the following subsequent event:

On January 1, 2014 (the Transaction Date), Western Connecticut Health Network (WCHN) became the sole corporate member of the Corporation and a corporate affiliation was completed. WCHN will account for this business combination by applying the acquisition method and, accordingly the inherent contribution received will be valued as the excess of assets acquired and liabilities assumed. All assets and liabilities will be revalued to fair value as of January 1, 2014. As of the date these consolidated financial statements were issued, management is preparing the initial accounting for the acquisition.

## **Supplemental Consolidating Information**

# Norwalk Health Services Corporation and Subsidiaries

## Consolidating Balance Sheet

### September 30, 2013

	Norwalk Hospital Association	Norwalk Surgery Center LLC	Norwalk Health Care, Inc.	Norwalk Hospital Foundation, Inc.	Norwalk Health Services Corporation	Norwalk Hospital Physicians & Surgeons	S.W.C. Corporation	Maple Street Indemnity Company Ltd.	Eliminations	Consolidated
<b>Assets</b>										
Current assets										
Cash and cash equivalents	\$ 73,750,817	\$ 624,205	\$ 85,844	\$ 907,584	\$ 586,702	\$ 865,772	\$ 1,032,167	\$ 4,554,104	\$ -	\$ 82,407,195
Investments	8,738,868	-	-	5,079,488	-	-	-	19,838,403	-	33,656,759
Patient accounts receivable, net	26,795,462	941,898	-	-	-	847,419	288,813	-	-	28,873,592
Due from third party agencies	-	-	-	-	-	-	-	-	-	-
Due from affiliates	1,346,260	-	-	-	606,891	907,797	4,761	-	(2,865,709)	-
Inventories	1,845,044	459,345	-	-	-	-	412,661	-	-	2,717,050
Other current assets	5,000,728	109,532	-	3,074,574	-	226,340	21,501	22,547	-	8,455,222
Total current assets	117,477,179	2,134,980	85,844	9,061,646	1,193,593	2,847,328	1,759,903	24,415,054	(2,865,709)	156,109,818
Long-term investments	80,922,925	-	-	32,968,495	24,433,162	-	-	20,094,846	-	158,419,428
Assets whose use is limited										
Assets held by trustee per bond indenture	59,708,986	-	-	-	-	-	-	-	-	59,708,986
Assets held in trust for self-insurance	327	-	-	-	-	-	-	-	-	327
	59,709,313	-	-	-	-	-	-	-	-	59,709,313
Beneficial interest in trust					7,582,480	-	-	-	-	7,582,480
Other assets	54,024,266	11,705	700,000	4,620,586	653,223	-	-	14,890,000	(46,516,531)	28,383,249
Due from third party agencies	2,596,876	-	-	-	-	-	-	-	-	2,596,876
Beneficial interest in Norwalk Hospital Foundation, Inc.	45,162,957	-	-	-	-	-	-	-	(45,162,957)	-
Interest rate swap	4,554,026	-	-	-	-	-	-	-	-	4,554,026
Goodwill	13,843,749	4,142,240	-	-	-	-	-	-	(4,142,240)	13,843,749
Investment in joint venture	2,267,986	-	-	-	-	-	-	-	-	2,267,986
Property, plant and equipment										
Land and land improvements	7,369,891	-	-	-	937,642	-	-	-	-	8,307,533
Buildings	177,642,150	-	-	-	362,326	-	405,517	-	(174,536)	178,235,457
Equipment	251,254,314	2,015,261	-	131,033	-	281,552	397,558	-	303,824	254,383,542
Construction in progress and deferred project costs	34,252,962	-	-	-	-	-	-	-	-	34,252,962
Accumulated depreciation	(310,387,551)	(622,248)	-	(131,033)	(290,691)	(134,590)	(750,972)	-	117,815	(312,199,270)
Total property, plant, and equipment	160,131,766	1,393,013	-	-	1,009,277	146,962	52,103	-	247,103	162,980,224
Total assets	\$ 540,691,043	\$ 7,681,938	\$ 785,844	\$ 46,650,727	\$ 34,871,735	\$ 2,994,290	\$ 1,812,006	\$ 59,399,900	\$ (98,440,334)	\$ 596,447,149

# Norwalk Health Services Corporation and Subsidiaries

## Consolidating Balance Sheet

### September 30, 2013

	Norwalk Hospital Association	Norwalk Surgery Center LLC	Norwalk Health Care, Inc.	Norwalk Hospital Foundation, Inc.	Norwalk Health Services Corporation	Norwalk Hospital Physicians & Surgeons	S.W.C. Corporation	Maple Street Indemnity Company Ltd.	Eliminations	Consolidated
<b>Liabilities and Net Assets</b>										
Current liabilities										
Accounts payable	\$ 29,302,635	\$ 342,459	\$ 426	\$ 25,125	\$ 173,226	\$ 462,296	\$ 680,220	\$ 64,347	\$ -	\$ 31,050,734
Accrued compensation	22,048,375	119,934	-	-	-	3,364,437	478,563	-	-	26,011,309
Due to third party agencies	4,893,626	-	115,108	-	-	-	-	-	-	5,008,734
Due to affiliates	851,758	-	24,140	1,382,920	606,891	-	-	-	(2,865,709)	-
Accrued interest payable	818,694	-	-	-	-	-	-	-	-	818,694
Current portion of long-term debt	4,508,589	681,945	-	-	-	-	-	-	-	5,190,534
Other current liabilities	-	-	283,041	-	-	-	-	-	-	283,041
Total current liabilities	62,423,677	1,144,338	422,715	1,408,045	780,117	3,826,733	1,158,783	64,347	(2,865,709)	68,363,046
Accrued pension liability	13,061,730	-	-	-	-	-	-	-	-	13,061,730
Asset retirement obligations	10,653,327	-	-	-	-	-	-	-	-	10,653,327
Other liabilities	56,789,890	-	119,848	-	-	-	-	47,739,635	(45,863,308)	58,786,065
Due to third party agencies	28,187,936	-	-	-	-	-	-	-	-	28,187,936
Long-term debt, less current portion	122,361,367	2,668,931	-	-	-	-	-	-	-	125,030,298
Total liabilities	293,477,927	3,813,269	542,563	1,408,045	780,117	3,826,733	1,158,783	47,803,982	(48,729,017.00)	304,082,402
Net assets										
Unrestricted	206,189,749	3,868,669	243,281	-	26,509,138	(832,443)	-	11,595,918	(9,423,007)	238,151,305
Unrestricted attributable to noncontrolling interest	1,388,280	-	-	-	-	-	-	-	-	1,388,280
Temporarily restricted	30,180,235	-	-	35,787,830	7,582,480	-	-	-	(30,180,235)	43,370,310
Permanently restricted	9,454,852	-	-	9,454,852	-	-	-	-	(9,454,852)	9,454,852
Shareholder's equity	-	-	-	-	-	-	653,223	-	(653,223)	-
Total net assets and shareholder's equity	247,213,116	3,868,669	243,281	45,242,682	34,091,618	(832,443)	653,223	11,595,918	(49,711,317)	292,364,747
Total liabilities, net assets and shareholders' equity	\$ 540,691,043	\$ 7,681,938	\$ 785,844	\$ 46,650,727	\$ 34,871,735	\$ 2,994,290	\$ 1,812,006	\$ 59,399,900	\$ (98,440,334)	\$ 596,447,149

# Norwalk Health Services Corporation and Subsidiaries

## Consolidating Statement of Operations

### Year Ended September 30, 2013

	Norwalk Hospital Association	Norwalk Surgery Center LLC	Norwalk Health Care, Inc.	Norwalk Hospital Foundation, Inc.	Norwalk Health Services Corporation	Norwalk Hospital Physicians & Surgeons	S.W.C. Corporation	Maple Street Indemnity Company Ltd.	Eliminations	Consolidated
<b>Operating revenues</b>										
Net revenues from services to patients	\$ 334,131,914	\$ 9,605,366	\$ 57,772	\$ -	\$ -	\$ 12,561,875	\$ 8,443,510	\$ -	\$ -	\$ 364,800,437
Other operating revenues	16,843,048	3,261	-	628,184	764,678	15,074,358	3,504,475	7,154,243	(28,428,551)	15,543,696
Equity in earnings of subsidiary	-	-	-	-	328,974	-	-	-	(328,974)	-
Change in unrestricted beneficial interest in Norwalk Hospital Foundation	-	-	-	-	-	-	-	-	-	-
Net assets released from restrictions used for operations	-	-	-	3,450,936	-	-	-	-	-	3,450,936
Total operating revenues	<u>350,974,962</u>	<u>9,608,627</u>	<u>57,772</u>	<u>4,079,120</u>	<u>1,093,652</u>	<u>27,636,233</u>	<u>11,947,985</u>	<u>7,154,243</u>	<u>(28,757,525)</u>	<u>383,795,069</u>
<b>Operating expenses</b>										
Salaries and benefits	190,069,219	1,984,160	-	1,425,206	-	23,481,718	4,716,812	-	-	221,677,115
Supplies and other expenses	127,118,855	3,054,622	-	3,809,356	75,000	9,376,549	6,830,429	3,799,392	(27,800,367)	126,263,836
Depreciation and amortization	18,635,476	334,303	-	-	7,469	80,185	71,770	-	(5,818)	19,123,385
Funding operations of Norwalk Hospital Foundation	628,184	-	-	-	-	-	-	-	(628,184)	-
Interest	2,529,391	166,232	-	-	-	192	-	-	-	2,695,815
Total operating expenses	<u>338,981,125</u>	<u>5,539,317</u>	<u>-</u>	<u>5,234,562</u>	<u>82,469</u>	<u>32,938,644</u>	<u>11,619,011</u>	<u>3,799,392</u>	<u>(28,434,369)</u>	<u>369,760,151</u>
Income (loss) from operations	<u>11,993,837</u>	<u>4,069,310</u>	<u>57,772</u>	<u>(1,155,442)</u>	<u>1,011,183</u>	<u>(5,302,411)</u>	<u>328,974</u>	<u>3,354,851</u>	<u>(323,156)</u>	<u>14,034,918</u>
<b>Nonoperating income (expense)</b>										
Investment income	2,302,857	4,868	-	-	-	-	-	-	-	2,307,725
Net unrealized gains/(loss) on investments	7,760,507	-	-	-	2,163,400	-	-	92,322	-	10,016,229
Write off financing fees	(246,698)	-	-	-	-	-	-	-	-	(246,698)
Provision for joint venture investment	-	-	-	-	-	-	-	-	-	-
Total nonoperating income (expense)	<u>9,816,666</u>	<u>4,868</u>	<u>-</u>	<u>-</u>	<u>2,163,400</u>	<u>-</u>	<u>-</u>	<u>92,322</u>	<u>-</u>	<u>12,077,256</u>
Excess (deficiency) of revenues over expenses, before noncontrolling interest in joint venture	21,810,503	4,074,178	57,772	(1,155,442)	3,174,583	(5,302,411)	328,974	3,447,173	(323,156)	26,112,174
Change in value attributable to noncontrolling interest in joint venture	-	(1,345,837)	-	-	-	-	-	-	-	(1,345,837)
Excess (deficiency) of revenues over expenses	<u>21,810,503</u>	<u>2,728,341</u>	<u>57,772</u>	<u>(1,155,442)</u>	<u>3,174,583</u>	<u>(5,302,411)</u>	<u>328,974</u>	<u>3,447,173</u>	<u>(323,156)</u>	<u>24,766,337</u>
<b>Other changes in net assets</b>										
Net assets released from restrictions used for capital	-	-	-	10,627,037	-	-	-	-	-	10,627,037
Transfers (to) from Norwalk Health Services Corporation	(5,302,411)	-	-	-	-	5,302,411	-	-	-	-
Transfer of interest of Fairfield County Medical Services, Inc	-	-	-	-	-	-	-	-	-	-
Pension related changes other than net periodic benefit cost	51,307,939	-	-	-	-	-	-	-	-	51,307,939
Transfers from Norwalk Hospital Foundation, Inc.	10,627,037	-	-	(10,627,037)	-	-	-	-	-	-
Change in value of interest rate swap	4,554,026	-	-	-	-	-	-	-	-	4,554,026
Net unrestricted other changes in joint venture	2,735,957	(3,387,274)	-	-	-	-	-	-	-	(651,317)
Funding operations of Norwalk Hospital Foundation, Inc.	(1,155,442)	-	-	1,155,442	-	-	-	-	-	-
Non controlling interest in joint venture	-	1,345,837	-	-	-	-	-	-	-	1,345,837
Increase (decrease) in unrestricted net assets	<u>\$ 84,577,609</u>	<u>\$ 686,904</u>	<u>\$ 57,772</u>	<u>\$ -</u>	<u>\$ 3,174,583</u>	<u>\$ -</u>	<u>\$ 328,974</u>	<u>\$ 3,447,173</u>	<u>\$ (323,156)</u>	<u>\$ 91,949,859</u>

# Norwalk Health Services Corporation and Subsidiaries

## Consolidating Statement of Changes in Net Assets

### Year Ended September 30, 2013

	Norwalk Hospital Association	Norwalk Surgery Center LLC	Norwalk Health Care, Inc.	Norwalk Hospital Foundation, Inc.	Norwalk Health Services Corporation	Norwalk Hospital Physicians & Surgeons	S.W.C. Corporation	Maple Street Indemnity Company Ltd.	Eliminations	Consolidated
<b>Unrestricted net assets</b>										
Excess (deficiency) of revenues over expenses	\$ 21,810,503	\$ 2,728,341	\$ 57,772	\$ (1,155,442)	\$ 3,174,583	\$ (5,302,411)	\$ 328,974	\$ 3,447,173	\$ (323,156)	\$ 24,766,337
Net assets realized from restrictions used for capital	-	-	-	10,627,037	-	-	-	-	-	10,627,037
Transfers (to) from Norwalk Health Services Corporation	(5,302,411)	-	-	-	-	5,302,411	-	-	-	-
Transfer of interest of Fairfield County Medical Services, Inc.	-	-	-	-	-	-	-	-	-	-
Pension related changes other than net periodic benefit cost	51,307,939	-	-	-	-	-	-	-	-	51,307,939
Transfers from Norwalk Hospital Foundation, Inc.	10,627,037	-	-	(10,627,037)	-	-	-	-	-	-
Change in value of interest rate swap	4,554,026	-	-	-	-	-	-	-	-	4,554,026
Net unrestricted other changes in joint venture	2,735,957	(3,387,274)	-	-	-	-	-	-	-	(651,317)
Funding operations of Norwalk Hospital Foundation, Inc.	(1,155,442)	-	-	1,155,442	-	-	-	-	-	-
Non controlling interest in joint venture	-	1,345,837	-	-	-	-	-	-	-	1,345,837
Decrease (increase) in unrestricted net assets	<u>84,577,609</u>	<u>686,904</u>	<u>57,772</u>	<u>-</u>	<u>3,174,583</u>	<u>-</u>	<u>328,974</u>	<u>3,447,173</u>	<u>(323,156)</u>	<u>91,949,859</u>
<b>Temporarily restricted net assets</b>										
Contributions	-	-	-	6,238,140	-	-	-	-	-	6,238,140
Increase in assets held in trust by others	-	-	-	-	509,836	-	-	-	-	509,836
Change in beneficial interest in	-	-	-	-	-	-	-	-	-	-
Norwalk Hospital Foundation, Inc.	(4,066,484)	-	-	-	-	-	-	-	4,066,484	-
Net realized and unrealized losses on investments	-	-	-	3,597,161	-	-	-	-	-	3,597,161
Net assets released from restrictions	-	-	-	(14,077,973)	-	-	-	-	-	(14,077,973)
Decrease (increase) in temporarily restricted net assets	<u>(4,066,484)</u>	<u>-</u>	<u>-</u>	<u>(4,242,672)</u>	<u>509,836</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,066,484</u>	<u>(3,732,836)</u>
<b>Permanently restricted net assets</b>										
Contributions	-	-	-	9,000	-	-	-	-	-	9,000
Change in beneficial interest in Norwalk Hospital Foundation, Inc.	8,999	-	-	-	-	-	-	-	(8,999)	-
Increase in permanently restricted net assets	<u>8,999</u>	<u>-</u>	<u>-</u>	<u>9,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(8,999)</u>	<u>9,000</u>
Increase (decrease) in net assets	<u>80,520,124</u>	<u>686,904</u>	<u>57,772</u>	<u>(4,233,672)</u>	<u>3,684,419</u>	<u>-</u>	<u>328,974</u>	<u>3,447,173</u>	<u>3,734,329</u>	<u>88,226,023</u>
<b>Net assets (liabilities)</b>										
Beginning of year	<u>166,692,992</u>	<u>3,181,765</u>	<u>185,509</u>	<u>49,476,354</u>	<u>30,407,199</u>	<u>(832,443)</u>	<u>324,249</u>	<u>8,148,745</u>	<u>(53,445,646)</u>	<u>204,138,724</u>
End of year	<u>\$ 247,213,116</u>	<u>\$ 3,868,669</u>	<u>\$ 243,281</u>	<u>\$ 45,242,682</u>	<u>\$ 34,091,618</u>	<u>\$ (832,443)</u>	<u>\$ 653,223</u>	<u>\$ 11,595,918</u>	<u>\$ (49,711,317)</u>	<u>\$ 292,364,747</u>



# Norwalk Health Services Corporation and Subsidiaries

## Consolidating Balance Sheet

### September 30, 2012

	Norwalk Hospital Association	Norwalk Surgery Center LLC	Norwalk Health Care, Inc.	Norwalk Hospital Foundation, Inc.	Norwalk Health Services Corporation	Norwalk Hospital Physicians & Surgeons	S.W.C. Corporation	Maple Street Indemnity Company Ltd.	Eliminations	Consolidated
<b>Assets</b>										
Current assets										
Cash and cash equivalents	\$ 79,838,027	\$ 574,439	\$ 324,216	\$ 1,766,680	\$ 492,280	\$ 309,015	\$ 285,105	\$ 1,902,917	\$ -	\$ 85,492,679
Investments	8,710,885	-	-	-	-	-	-	36,776,200	-	45,487,085
Patient accounts receivable, net	30,103,755	1,039,460	-	-	-	999,660	187,644	-	-	32,330,519
Due from third party agencies	2,368,715	-	-	-	-	-	-	-	-	2,368,715
Due from affiliates	4,330,064	-	-	-	4,501,544	4,501,544	60,112	-	(13,393,264)	-
Inventories	1,860,656	363,579	-	-	-	-	343,828	-	-	2,568,063
Other current assets	2,762,968	61,519	-	3,768,592	-	245,379	21,501	22,289	-	6,882,248
Assets whose use is limited	278,083	-	-	-	-	-	-	-	-	278,083
Total current assets	130,253,153	2,038,997	324,216	5,535,272	4,993,824	6,055,598	898,190	38,701,406	(13,393,264)	175,407,392
Long-term investments	46,403,962	-	-	36,469,312	21,603,382	-	-	-	-	104,476,656
Assets whose use is limited										
Assets held by trustee per bond indenture	2,366,125	-	-	-	-	-	-	-	-	2,366,125
Assets held in trust for self-insurance	2,450,281	-	-	-	-	-	-	-	-	2,450,281
	4,816,406	-	-	-	-	-	-	-	-	4,816,406
Beneficial interest in trust	-	-	-	-	7,072,644	-	-	-	-	7,072,644
Other assets	51,878,179	12,617	700,000	7,925,050	324,249	-	-	15,050,000	(43,441,094)	32,449,001
Due from third party agencies	3,698,889	-	-	-	-	-	-	-	-	3,698,889
Beneficial interest in Norwalk Hospital Foundation, Inc.	49,220,442	-	-	-	-	-	-	-	(49,220,442)	-
Goodwill	13,843,749	4,142,240	-	-	-	-	-	-	(4,142,240)	13,843,749
Investment in joint venture	2,267,986	-	-	-	-	-	-	-	-	2,267,986
Property, plant and equipment										
Land and land improvements	2,774,613	-	-	-	937,642	-	-	-	-	3,712,255
Buildings	174,778,639	589,714	-	-	362,326	-	405,517	-	(174,536)	175,961,660
Equipment	242,977,946	981,575	-	131,033	-	212,652	397,558	-	303,824	245,004,588
Construction in progress and deferred project costs	8,602,012	-	-	-	-	-	-	-	-	8,602,012
Accumulated depreciation	(292,559,901)	(288,857)	-	(131,033)	(283,222)	(55,025)	(679,202)	-	111,997	(293,885,243)
Total property, plant, and equipment	136,573,309	1,282,432	-	-	1,016,746	157,627	123,873	-	241,285	139,395,272
Total assets	\$ 438,956,075	\$ 7,476,286	\$ 1,024,216	\$ 49,929,634	\$ 35,010,845	\$ 6,213,225	\$ 1,022,063	\$ 53,751,406	\$ (109,955,755)	\$ 483,427,995

# Norwalk Health Services Corporation and Subsidiaries

## Consolidating Balance Sheet

### September 30, 2012

	Norwalk Hospital Association	Norwalk Surgery Center LLC	Norwalk Health Care, Inc.	Norwalk Hospital Foundation, Inc.	Norwalk Health Services Corporation	Norwalk Hospital Physicians & Surgeons	S.W.C. Corporation	Maple Street Indemnity Company Ltd.	Eliminations	Consolidated
<b>Liabilities and Net Assets</b>										
<b>Current liabilities</b>										
Accounts payable	\$ 25,888,666	\$ 255,144	\$ 2,451	\$ 262,474	\$ 102,102	\$ 291,875	\$ 250,452	\$ 79,168	\$ -	\$ 27,132,332
Accrued compensation	17,881,149	39,377	-	-	-	2,614,534	447,362	-	-	20,982,422
Due to third party agencies	4,906,972	-	115,108	-	-	-	-	-	-	5,022,080
Due to affiliates	4,561,655	-	-	190,806	4,501,544	4,139,259	-	-	(13,393,264)	-
Accrued interest payable	757,682	-	-	-	-	-	-	-	-	757,682
Current portion of long-term debt	5,025,862	648,557	-	-	-	-	-	-	-	5,674,419
Current portion capital lease	7,180	-	-	-	-	-	-	-	-	7,180
Other current liabilities	-	-	291,774	-	-	-	-	-	-	291,774
Total current liabilities	59,029,166	943,078	409,333	453,280	4,603,646	7,045,668	697,814	79,168	(13,393,264)	59,867,889
Accrued pension liability	64,741,651	-	-	-	-	-	-	-	-	64,741,651
Asset retirement obligations	10,866,380	-	-	-	-	-	-	-	-	10,866,380
Other liabilities	55,942,041	-	429,374	-	-	-	-	45,523,493.00	(43,116,845.00)	58,778,063
Due to third party agencies	28,938,889	-	-	-	-	-	-	-	-	28,938,889
Long-term debt, less current portion	52,744,956	3,351,443	-	-	-	-	-	-	-	56,096,399
Long-term capital lease, less current portion	-	-	-	-	-	-	-	-	-	-
Total liabilities	272,263,083	4,294,521	838,707	453,280	4,603,646.00	7,045,668.00	697,814.00	45,602,661.00	(56,510,109.00)	279,289,271
<b>Net assets</b>										
Unrestricted	122,045,890	3,181,765	185,509	-	23,334,555	(832,443)	-	8,148,745	(9,428,825)	146,635,196
Unrestricted attributable to noncontrolling interest	954,530	-	-	-	-	-	-	-	-	954,530
Temporarily restricted	34,246,719	-	-	40,030,502	7,072,644	-	-	-	(34,246,719)	47,103,146
Permanently restricted	9,445,853	-	-	9,445,852	-	-	-	-	(9,445,853)	9,445,852
Shareholder's equity	-	-	-	-	-	-	324,249	-	(324,249)	-
Total net assets and shareholder's equity	166,692,992	3,181,765	185,509	49,476,354	30,407,199	(832,443)	324,249	8,148,745	(53,445,646)	204,138,724
Total liabilities, net assets and shareholders' equity	\$ 438,956,075	\$ 7,476,286	\$ 1,024,216	\$ 49,929,634	\$ 35,010,845	\$ 6,213,225	\$ 1,022,063	\$ 53,751,406	\$ (109,955,755)	\$ 483,427,995

# Norwalk Health Services Corporation and Subsidiaries

## Consolidating Statement of Operations

### Year Ended September 30, 2012

	Norwalk Hospital Association	Norwalk Surgery Center LLC	Norwalk Health Care, Inc.	Norwalk Hospital Foundation, Inc.	Norwalk Health Services Corporation	Norwalk Hospital Physicians & Surgeons	S.W.C. Corporation	Maple Street Indemnity Company Ltd.	Eliminations	Consolidated
<b>Operating revenues</b>										
Net revenues from services to patients	\$ 339,737,400	\$ 4,988,845	\$ 974,824	\$ -	\$ -	\$ 12,059,599	\$ 8,138,100	\$ -	\$ -	\$ 365,898,768
Other operating revenues	20,310,592	942	-	1,182,308	1,003,880	13,188,123	3,473,471	8,181,522	(29,133,740)	18,207,098
Equity in earnings of subsidiary	-	-	-	-	18,389	-	-	-	(18,389)	-
Change in unrestricted beneficial interest in Norwalk Hospital Foundation	-	-	-	-	-	-	-	-	-	-
Net assets released from restrictions used for operations	-	-	-	-	-	-	-	-	-	-
	-	-	-	5,341,417	-	-	-	-	-	5,341,417
Total operating revenues	360,047,992	4,989,787	974,824	6,523,725	1,022,269	25,247,722	11,611,571	8,181,522	(29,152,129)	389,447,283
<b>Operating expenses</b>										
Salaries and benefits	181,353,127	1,500,118	-	1,589,161	-	21,091,558	4,676,329	-	-	210,210,293
Supplies and other expenses	133,479,325	2,080,806	-	5,824,344	75,000	8,603,485	6,842,000	7,136,637	(27,951,432)	136,090,165
Depreciation and amortization	20,380,372	263,785	-	-	7,469	54,223	74,853	-	(5,818)	20,774,884
Funding operations of Norwalk Hospital Foundation	1,182,308	-	-	-	-	-	-	-	(1,182,308)	-
Interest	2,025,836	200,601	46,866	-	-	-	-	-	-	2,273,303
Total operating expenses	338,420,968	4,045,310	46,866	7,413,505	82,469	29,749,266	11,593,182	7,136,637	(29,139,558)	369,348,645
Income (loss) from operations	21,627,024	944,477	927,958	(889,780)	939,800	(4,501,544)	18,389	1,044,885	(12,571)	20,098,638
<b>Nonoperating income (expense)</b>										
Investment income	1,273,038	1,978	-	-	-	-	-	-	-	1,275,016
Net unrealized gains/(loss) on investments	3,763,749	-	-	-	2,458,594	-	-	(11,359)	-	6,210,984
Gain on sale of ambulatory surgery	3,838,416	-	-	-	-	-	-	-	(3,838,416)	-
Loss on Sale of equipment	(483,772)	-	-	-	-	-	-	-	-	(483,772)
Provision for joint venture investment	(461,817)	-	-	-	-	-	-	-	-	(461,817)
Total nonoperating income (expense)	7,929,614	1,978	-	-	2,458,594	-	-	(11,359)	(3,838,416)	6,540,411
Excess (deficiency) of revenues over expenses, before noncontrolling interest in joint venture	29,556,638	946,455	927,958	(889,780)	3,398,394	(4,501,544)	18,389	1,033,526	(3,850,987)	26,639,049
Change in value attributable to noncontrolling interest in joint venture	-	(283,937)	-	-	-	-	-	-	-	(283,937)
Excess (deficiency) of revenues over expenses	29,556,638	662,518	927,958	(889,780)	3,398,394	(4,501,544)	18,389	1,033,526	(3,850,987)	26,355,112
<b>Other changes in net assets</b>										
Net assets released from restrictions used for capital	-	-	-	737,532	-	-	-	-	-	737,532
Transfers (to) from Norwalk Health Services Corporation	(4,501,544)	-	1,130,943	-	(1,130,943)	4,501,544	-	-	-	-
Transfer of interest of Fairfield County Medical Services, Inc	832,443	-	-	-	-	(832,443)	-	-	-	-
Pension related changes other than net periodic benefit cost	(6,727,223)	-	-	-	-	-	-	-	-	(6,727,223)
Transfers from Norwalk Hospital Foundation, Inc.	737,532	-	-	(737,532)	-	-	-	-	-	-
Funding operations of Norwalk Hospital Foundation, Inc.	(889,780)	-	-	889,780	-	-	-	-	-	-
Non controlling interest in joint venture	-	283,937	-	-	-	-	-	-	-	283,937
Increase (decrease) in unrestricted net assets	\$ 19,008,066	\$ 946,455	\$ 2,058,901	\$ -	\$ 2,267,451	\$ (832,443)	\$ 18,389	\$ 1,033,526	\$ (3,850,987)	\$ 20,649,358

# Norwalk Health Services Corporation and Subsidiaries

## Consolidating Statement of Changes in Net Assets

### Year Ended September 30, 2012

	Norwalk Hospital Association	Norwalk Surgery Center LLC	Norwalk Health Care, Inc.	Norwalk Hospital Foundation, Inc.	Norwalk Health Services Corporation	Norwalk Hospital Physicians & Surgeons	S.W.C. Corporation	Maple Street Indemnity Company Ltd.	Eliminations	Consolidated
<b>Unrestricted net assets</b>										
Excess (deficiency) of revenues over expenses	\$ 29,556,638	\$ 662,518	\$ 927,958	\$ (889,780)	\$ 3,398,394	\$ (4,501,544)	\$ 18,389	\$ 1,033,526	\$ (3,850,987)	\$ 26,355,112
Net assets realized from restrictions used for capital	-	-	-	737,532	-	-	-	-	-	737,532
Transfers (to) from Norwalk Health Services Corporation	(4,501,544)	-	1,130,943	-	(1,130,943)	4,501,544	-	-	-	-
Transfer of interest of Fairfield County Medical Services, Inc.	832,443	-	-	-	-	(832,443)	-	-	-	-
Pension related changes other than net periodic benefit cost	(6,727,223)	-	-	-	-	-	-	-	-	(6,727,223)
Transfers from Norwalk Hospital Foundation, Inc.	737,532	-	-	(737,532)	-	-	-	-	-	-
Funding operations of Norwalk Hospital Foundation, Inc.	(889,780)	-	-	889,780	-	-	-	-	-	-
Non controlling interest in joint venture	-	283,937	-	-	-	-	-	-	-	283,937
Decrease (increase) in unrestricted net assets	19,008,066	946,455	2,058,901	-	2,267,451	(832,443)	18,389	1,033,526	(3,850,987)	20,649,358
<b>Temporarily restricted net assets</b>										
Contributions	-	-	-	15,190,641	-	-	-	-	-	15,190,641
Decrease in assets held in trust by others	-	-	-	-	732,886	-	-	-	-	732,886
Change in beneficial interest in	-	-	-	-	-	-	-	-	-	-
Norwalk Hospital Foundation, Inc.	12,813,958	-	-	-	-	-	-	-	(12,813,958)	-
Net realized and unrealized losses on investments	-	-	-	3,718,481	-	-	-	-	-	3,718,481
Net assets released from restrictions	-	-	-	(6,078,949)	-	-	-	-	-	(6,078,949)
Decrease (increase) in temporarily restricted net assets	12,813,958	-	-	12,830,173	732,886	-	-	-	(12,813,958)	13,563,059
<b>Permanently restricted net assets</b>										
Contributions	-	-	-	6,610	-	-	-	-	-	6,610
Change in beneficial interest in Norwalk Hospital Foundation, Inc.	6,610	-	-	-	-	-	-	-	(6,610)	-
Increase in permanently restricted net assets	6,610	-	-	6,610	-	-	-	-	(6,610)	6,610
Increase (decrease) in net assets	31,828,634	946,455	2,058,901	12,836,783	3,000,337	(832,443)	18,389	1,033,526	(16,671,555)	34,219,027
<b>Net assets (liabilities)</b>										
Beginning of year	134,864,358	2,235,310	(1,873,392)	36,639,571	27,406,862	-	305,860	7,115,219	(36,774,091)	169,919,697
End of year	\$ 166,692,992	\$ 3,181,765	\$ 185,509	\$ 49,476,354	\$ 30,407,199	\$ (832,443)	\$ 324,249	\$ 8,148,745	\$ (53,445,646)	\$ 204,138,724